

# **STOCKTON UNIFIED SCHOOL DISTRICT**

Audit Report

## **HABITUAL TRUANT PROGRAM**

Chapter 1184, Statutes of 1975; Chapter 1010,  
Statutes of 1976; and Chapter 1023, Statutes of 1994

*July 1, 2001, through June 30, 2003*



**JOHN CHIANG**  
California State Controller

January 2007



**JOHN CHIANG**  
**California State Controller**

January 19, 2007

Jack McLaughlin, Ed.D., Superintendent  
Stockton Unified School District  
701 North Madison Street  
Stockton, CA 95202

Dear Dr. McLaughlin:

The State Controller's Office audited the costs claimed by the Stockton Unified School District for the legislatively mandated Habitual Truant Program (Chapter 1184, Statutes of 1975; Chapter 1010, Statutes 1976; and Chapter 1023, Statutes of 1994) for the period of July 1, 2001, through June 30, 2003.

The district claimed and was paid \$390,894 for the mandated program. Our audit disclosed that \$92,803 is allowable and \$298,091 is unallowable. The unallowable costs occurred primarily because the district claimed ineligible activities and salary and benefit costs that were not supported with adequate documentation. The district should return \$298,091 to the State.

In Finding 1, we noted that the district conducted a time study from October 24, 2005, through December 2, 2005, but did not complete the time study process. The district did not apply the time study results to the audit period documentation and calculate the allowable costs. If the district completes the time study process, we will evaluate the material and revise the final report as applicable.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site, at [www.csm.ca.gov](http://www.csm.ca.gov) (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at [csminfo@csm.ca.gov](mailto:csminfo@csm.ca.gov).

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

*Original signed by:*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/vb:ams

cc: Wayne Martin

Executive Director-Business Services  
Stockton Unified School District

Michael Lyons

Director of Student Services  
Stockton Unified School District

Julie Penn

Administrator of Secondary Curriculum/Summer School  
Stockton Unified School District

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the Stockton Unified School District for the legislatively mandated Habitual Truant Program (Chapter 1184, Statutes of 1975; Chapter 1010, Statutes of 1976; and Chapter 1023, Statutes of 1994) for the period of July 1, 2001, through June 30, 2003. The last day of fieldwork was June 7, 2006.

The district claimed and was paid \$390,894 for the mandated program. Our audit disclosed that \$92,803 is allowable and \$298,091 is unallowable. The unallowable costs occurred primarily because the district claimed ineligible activities and salary and benefit costs that were not supported with adequate documentation. The district should return \$298,091 to the State.

## Background

*Education Code* Sections 12403, 48262, and 48264.5 were added by Chapter 1184, Statutes of 1975; Chapter 1010, Statutes of 1976; and Chapter 1023, Statutes of 1994. The law defines "habitual truant" and states that no pupil shall be deemed as a habitual truant unless school districts make a "conscientious effort" to hold at least one conference with the pupil's parent or guardian and the pupil. It also requires school districts to classify a pupil as a habitual truant as defined in *Education Code* Section 48262 upon the pupil's fourth truancy within the same school year.

On September 25, 1997, the Commission on State Mandates (COSM) determined the above legislation imposed a state mandate reimbursable under *Government Code* Section 17561.

*Parameters and Guidelines* establishes the state mandate and defines reimbursement criteria. COSM adopted the *Parameters and Guidelines* on January 29, 1998. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs

## Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Habitual Truant Program for the period of July 1, 2001, through June 30, 2003.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

In Finding 1, we noted that the district conducted a time study from October 24, 2005, through December 2, 2005, but did not complete the time study process. The district did not apply the time study results to the audit period documentation and calculate the allowable costs. If the district completes the time study process before we issue the final report, we will evaluate the material and revise the finding as applicable.

For the audit period, the Stockton Unified School District claimed and was paid \$390,894 for costs of the Habitual Truant Program. Our audit disclosed that \$92,803 is allowable and \$298,091 is unallowable.

For fiscal year (FY) 2001-02, the State paid the district \$337,071. Our audit disclosed that \$92,803 is allowable. The district should return \$244,268 to the State.

For FY 2002-03, the State paid the district \$53,823. Our audit disclosed that all of the costs claimed are unallowable. The district should return \$53,823 to the State.

## **Views of Responsible Officials**

We issued a draft audit report on November 9, 2006. Wayne Martin, Executive Director, Business Services, and Julie Penn, Director of CWA/Summer Programs/ECE, responded by letter dated December 14, 2006 (Attachment), disagreeing with the audit results. This final audit report includes the district's response.

## **Restricted Use**

This report is solely for the information and use of the Stockton Unified School District, the San Joaquin County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

**Schedule 1—  
Summary of Program Costs  
July 1, 2001, through June 30, 2003**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference <sup>1</sup></u>
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 322,649	\$ 88,833	\$ (233,816)	Findings 1, 2, 3
Indirect costs	14,422	3,970	(10,452)	Findings 1, 2, 3
Total program costs	<u>\$ 337,071</u>	92,803	<u>\$ (244,268)</u>	
Less amount paid by the State		(337,071)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (244,268)</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries and benefits	\$ 51,158	\$ —	\$ (51,158)	Finding 1
Indirect costs	2,665	—	(2,665)	Finding 1
Total program costs	<u>\$ 53,823</u>	—	<u>\$ (53,823)</u>	
Less amount paid by the State		(53,823)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (53,823)</u>		
<u>Summary: July 1, 2001, through June 30, 2003</u>				
Salaries and benefits	\$ 373,807	\$ 88,833	\$ (284,974)	Findings 1, 2, 3
Indirect costs	17,087	3,970	(13,117)	Findings 1, 2, 3
Total program costs	<u>\$ 390,894</u>	92,803	<u>\$ (298,091)</u>	
Less amount paid by the State		(390,894)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (298,091)</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## **FINDING 1— Unallowable salary and benefit costs, and related indirect costs— inadequate documentation**

The district claimed unallowable salary and benefit costs totaling \$298,253 for the audit period. The related indirect costs total \$13,711. The unallowable costs occurred primarily because the district did not support costs claimed with adequate documentation.

### **Fiscal Year 2001-02**

The district claimed salary and benefit costs totaling \$322,649. Of this amount, the district claimed \$307,250 based on a time study that the district performed from March through May 2002. However, the time study did not adequately support costs claimed. Because the time study was inadequate to extrapolate the results to the full fiscal year, we allowed only those hours worked that were adequately supported by source documentation maintained during the time study period. As a result, \$231,783 is unallowable.

The district performed its time study by calculating the percentage of time employees spent performing mandate-related activities during the time study period. The district extrapolated these percentages to a full fiscal year, based on 1800 productive hours per year. The district did not quantify the time study results by identifying the number of students whose absences were verified, the number of conference letters sent, or the number of conferences held. In addition, the district did not provide any documentation to show that the time study period was representative of the fiscal year. In fact, district staff stated that the time study period is a busier time period for habitual truant activities.

The district also claimed \$15,399 for various employees who were not included in the district's time study. Of this amount, \$15,312 is unallowable because the district claimed activities that were not mandate-related and did not provide adequate documentation to support average times claimed.

### **Fiscal Year 2002-03**

For fiscal year (FY) 2002-03, the district claimed salary and benefit costs totaling \$51,158 to conduct parent conferences. The district claimed costs based on an average of 15 minutes per conference. The district did not provide adequate documentation to support the average time claimed. Therefore, the entire amount is unallowable.

Because we concluded that the district's supporting documentation was inadequate for the audit period, the district chose to conduct a new time study. The district prepared a time study plan, which we reviewed and approved on August 9, 2005. The district conducted its time study from October 24, 2005, through December 2, 2005. On February 14, 2006, the district submitted a time study plan addendum because district employees had not followed the procedures indicated in the approved time study plan. Ultimately, the district did not complete the time study process. The district did not apply the time study results to audit period documentation (i.e., number of students whose absences were verified, number of conference letters sent, and number of conferences held) and calculate allowable costs.



The following table summarizes the audit adjustment.

	Fiscal Year		Total
	2001-02	2002-03	
Salary and benefit costs	\$ (247,095)	\$ (51,158)	\$ (298,253)
Indirect costs	(11,046)	(2,665)	(13,711)
Audit adjustment	<u>\$ (258,141)</u>	<u>\$ (53,823)</u>	<u>\$ (311,964)</u>

*Parameters and Guidelines* requires that the district identify the actual number of hours devoted to each mandated activity. Districts may claim the average number of hours devoted to each activity if the average is supported by a documented time study.

In addition, *Parameters and Guidelines* identifies reimbursable activities as verifying prior trancies, making a conscientious effort to schedule a parent conference, scheduling and holding a parent conference, and reclassifying pupils.

#### Recommendation

We recommend that the district maintain adequate documentation to support costs claimed. The district should maintain time records that identify the actual hours devoted to each mandate activity. Alternatively, the district should complete a time study to claim average hours devoted to each mandate activity.

#### District's Response

It is our understanding, from the exit conference, Finding 1 and the draft audit report, that the SCO found \$231,783 of total costs claimed for [FY 2001-02] to be unallowable because the time study did "not adequately support costs claimed" and "the time study was inadequate to extrapolate the results to the full fiscal year" (SCO draft audit report, pg 4). While the district acknowledges flaws in the implementation of the time study it strongly objects to the SCO's retroactive stance on the time study. At the time of its implementation the SCO had issued no guidelines for a "proper" or "adequate" time study. Claimants were left on their own to develop, administer and implement a time study. SCO remained silent on this issue until Spring 2005' when it issued its guidelines for the development of a "valid" time study. Although it did not issue these guidelines until recently the SCO uses these contemporary standards to evaluate claims filed in prior FY's. This process creates a scenario in which a claimant cannot possibly file a claim in anticipation of methodologies adopted in future years and applied retroactively. It is our hope that the SCO will revisit its audit methodologies to address this and similar issues raised in the Clovis et.al. Petition For Writ of Mandamus; Complaint for Declaratory Relief on file with the Sacramento County State Superior Court.

#### SCO's Comment

Our finding and recommendation are unchanged. The district's response addresses only FY 2001-02 unallowable costs.

The SCO did not apply guidelines retroactively during the audit. In a letter dated April 2, 2002, the district's consultant requested that the SCO review Daily Actual Time Log forms that the district was using to perform a time study of mandate-related activities during the months of March, April, and May 2002 (note that the consultant's letter was submitted after the district initiated the time study). The consultant stated that the time study's purpose was to determine the percentage of time attributable to the mandated program during the fiscal year. The SCO responded to the district's consultant by letter dated May 16, 2002. The SCO responded as follows.

Your letter dated April 2, 2002, asked the State Controller's Office (SCO) to review the Daily Actual Time Log form. . . . However, sufficient information was not provided to allow for a determination of the letter's acceptability.

The *Parameters and Guidelines* for the Habitual Truant Program was approved on January 29, 1998. The SCO recognizes that the implementation of a time reporting system takes time. However, it has been four years since approval of the mandate, and a time reporting system should be in place. Since all activities being performed in the mandate do not relate to a task of a repetitive nature, an ongoing time reporting system should be established to account for actual time spent. . . .

The Daily Actual Time Log is a good start. . . . The form should be expanded to identify the specific activity performed for the non-reimbursable activities. Furthermore, the information contained on the form should be traceable to supporting documentation, e.g., verified truants, attendance logs, notification letters, and telephone logs.

The district selected March, April and May 2002 as representative months. The district should be able to support why those months are representative of the fiscal year. . . . From the information presented, it is unclear how the percentage of staff time will be used in determining claimed costs. . . .

The letter documents that the SCO provided contemporaneous feedback to the district's proposed time study, advising the district that the proposal, as submitted, was unacceptable. However, neither the district nor the consultant responded to our letter dated May 16, 2002, and the district did not correct the deficiencies noted. Our audit finding notes that the district did not quantify the time study results by identifying the number of students whose absences were verified, the number of conference letters sent, or the number of conferences held. In addition, the district did not provide any documentation to show that the time study period was representative of the fiscal year.

In addition, the district's response fails to acknowledge that the SCO allowed the district to conduct a second time study to support costs claimed. The district prepared a second time study plan that the SCO reviewed and approved on August 9, 2005. The district conducted its time study from October 24, 2005, through December 2, 2005. On February 14, 2006, the district submitted a time study plan addendum because district employees had not followed the procedures indicated in the approved time study plan. Ultimately, the district failed to complete

the time study process. The district did not calculate allowable costs by applying the time study results to audit period documentation (i.e., number of students whose absences were verified, number of conference letters sent, and number of conferences held). If the district completes the time study process, the SCO will evaluate the material and revise this final audit report as warranted.

**FINDING 2—  
Understated  
productive hourly  
rates**

The district understated allowable salary and benefit costs by \$18,518 for FY 2001-02. The related indirect costs total \$828. The district's payroll documentation supports hourly wage rates that exceed the wage rates claimed.

*Parameters and Guidelines* requires the district to identify the employee and the corresponding job classification; describe the mandated functions performed; and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits.

Recommendation

We recommend that the district implement procedures to ensure that productive hourly rates claimed are consistent with supporting documentation.

District's Response

The district did not respond to this audit finding.

**FINDING 3—  
Unallowable salary  
and benefit costs, and  
related indirect costs—  
funded from other  
sources**

For FY 2001-02, the district claimed unallowable salary and benefit costs totaling \$5,239. The related indirect costs total \$234. The district claimed costs for one employee who was funded from restricted funds.

*Parameters and Guidelines* states that reimbursement for this mandate received from any source—e.g. service fees collected, federal funds, other state funds, etc.—shall be identified and deducted from claimed costs.

Recommendation

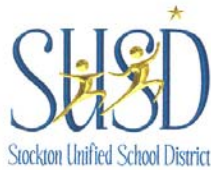
We recommend that the district deduct from costs claimed any reimbursement received from other sources.

District's Response

The district did not respond to this audit finding.

**Attachment—  
District's Response to  
Draft Audit Report**

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**BUSINESS SERVICES**  
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(209) 933-7055 Ext. 2091  
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Jack McLaughlin

December 14, 2006

Jim L. Spano, CPA  
Chief, Compliance Audits Bureau  
Division of Audits  
State Controllers Office  
P.O. Box 942850  
Sacramento, CA 94250-5874

**RE: Habitual Truancy**  
**July 1, 2001 through June 30, 2003**

Dear Mr. Spano:

This letter responds to the draft audit report issued by the State Controllers Office (SCO) with regard to costs claimed by Stockton Unified School District (District) for the legislatively mandated Habitual Truant Program (HT), for the period of July 1, 2001 through June 30, 2003. The District extends its appreciation for the professional courtesy of SCO staff shown during this audit. The District also appreciates this opportunity to respectfully respond to the principal audit finding in FY 2001/02.

Please note that this letter does not represent a complete list of the District's disagreements with the draft audit report, and that the District reserves the right to raise other issues (if necessary) in subsequent proceedings related to the SCO's audit of these claims.

Disallowed time study costs

It is our understanding, from the exit conference, Finding I and the draft audit report, that the SCO found \$231,783 of total costs claimed for this FY to be unallowable because the time study did "not adequately support costs claimed" and "the time study was inadequate to extrapolate the results to the full fiscal year" (SCO draft audit report, pg 4). While the District acknowledges flaws in the implementation of the time study it strongly objects to the SCO's retroactive stance on the time study. At the time of its implementation the SCO had issued no guidelines for a


Jim L. Spano, CPA/Chief, Compliance Audits Bureau  
Division of Audits, State Controllers Office  
Re: Habitual Truancy 7/1/01 – 6/30/03  
December 14, 2006  
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“proper” or “adequate” time study. Claimants were left on their own to develop, administer and implement a time study. SCO remained silent on this issue until Spring 2005’ when it issued its guidelines for the development of a “valid” time study. Although it did not issue these guidelines until recently the SCO uses these contemporary standards to evaluate claims filed in prior FY’s. This process creates a scenario in which a claimant cannot possibly file a claim in anticipation of methodologies adopted in future years and applied retroactively. It is our hope that the SCO will revisit its audit methodologies to address this and similar issues raised in the Clovis et. al. Petition For Writ of Mandamus; Complaint for Declaratory Relief on file with the Sacramento County State Superior Court.

Sincerely,

  
Wayne Martin  
Executive Director, Business Services

  
Julie Penn  
Director of CWA/ Summer Programs/ECE

**State Controller's Office  
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